Determinants of Tax Evasion on Imported Vehicles

Misman Miskam\textsuperscript{a,*}, Rohaya Md Noor\textsuperscript{b}, Normah Omar\textsuperscript{c} and Rozainun Abd Aziz\textsuperscript{d}

\textsuperscript{a,b,c} Faculty of Accountancy & Accounting Research Institute, Universiti Teknologi Mara, Shah Alam, Selangor, 40150, Malaysia.
\textsuperscript{d} Faculty of Accountancy, Universiti Teknologi Mara, Shah Alam, Selangor, 40150, Malaysia.

Abstract

The importance of taxation as a major public finance to developed and developing countries is non-debatable. The issue of smuggling activities related to the indirect taxation had caused a great loss to the government not only in term of monetary aspect, but also non-monetary aspects such as quotas, embargo and product quality. However, the study of tax evasion and smuggling activities in the indirect taxation have received less attention among the researchers and legislators. Hence, the current study aims to examine factors affecting the tax evasion on excise duties for importation of vehicles that can be associated with smuggling activities in Malaysia. The study has identified several potential determinants related to tax evasion on imported vehicles, such as the tax rate, penalty structure, the car’s brand and size of the business of car importers. To achieve the objectives, this study used sample data from vehicles smuggling cases investigated by the tax authorities in Malaysia. The hypotheses were tested using both univariate and multivariate statistical methods. The statistical results provided evidence on the significant values of evaded excise duties, whereby the excise duties and penalty rates are the contributing factors for the tax evasion in vehicles smuggling activities. Hence, this study contributes towards the body of literature in the discussed area and also provides strategic information to the policymakers in reviewing the tax policy related to excise duties on imported vehicles in the future.

\textsuperscript{a} Corresponding author.
\textit{Email address: misman.miskam@customs.gov.my}

1. Introduction

Tax has always been an important and crucial tool for the government administration in most developed and developing countries. The economists believe that tax not only generate revenue for the public finance but
also as an income re-distribution of the rich to the poor (Saez, 2004). The principle of economic welfare applies in the tax system, whereby the government finances its expenditure by imposing charges and levies on citizens and corporate entities (Businessdictionary.com, 2012). In Malaysia, the evolution of the taxation system had emerged rapidly from indirect taxes (in 1970s) to the direct taxes (in 1990s) in order to achieve income re-distribution objective. However, in the recent government transformation programme (GTP), Malaysia would reemphasize on indirect tax system, such as good and service tax (GST) that is a broad based tax to increase the tax revenue.

A good tax system should comprise of principles such as efficiency, fairness and equity, as well as neutrality principles. However, it is very difficult to achieve all the principles. For example, to achieve the principle of fairness and equity, the tax system would a certain extent need to forgo the neutrality principle. Hence, as a result the tax non-compliance and evasion occurs, whereby the dishonest person would try to avoid or reduce their tax liabilities through illegal means.

Watrin and Ullmann, 2008, reported that tax evasion is rampant in both direct and indirect taxes. The tax gap is normally associated with the tax evasion. The tax gap is the difference between amounts of income that should be legally reported and the actual amount reported to the tax authority. The tax evasion in indirect taxes is always associated with smuggling activity or tax evasion on customs tariff. The customs tariff includes the import or export of products by unauthorized means and evading the customs duties through various ways such as conducting under-invoicing and mis-declaration of goods during import or export. The smuggling activities has caused the government losses not only in monetary revenue but also non-monetary controlling like quotas, embargo and product quality (Stephen et al., 1991).

The issues of tax evasion on customs tariff and smuggling activities have received less attention from researchers and legislators (Delipalla, 2009). Prior studies only focused on service tax evasion (Rohaya and Ezdiani, 2011) and tax planning on corporate income taxation (Md. Noor et al., 2008). Therefore, the current study aims to examine the tax gap and factors affecting the tax evasion on excise duties for importation of vehicles that can be associated with smuggling activities in Malaysia. The findings of this study will give a significant contribution to the relevant authorities about the tax evasion issues in indirect tax system and its potential determinants that contribute to the problem. Furthermore, this study is vital as it will provide strategic information to the legislators and most importantly, establish empirical evidence on excise duty evasion in Malaysia.

2. Literature Review

2.1. Malaysian taxation system

The Malaysian taxation system comprised of direct and indirect taxes. The direct taxes are administered by the Inland Revenue Board of Malaysia (IRBM), meanwhile the indirect taxes are administered by the Royal Malaysian Customs Department (RMCD). The direct taxes include company tax, individual tax, cooperative tax which is governed under Income Tax Act 1967; petroleum tax under the Petroleum Tax Act 1967. The indirect taxes include customs duties, excise duties, sales tax and service tax. Customs duties are duties levied on goods being imported or exported and classified into two: import duties and export duties. Customs duties are levied under the Customs Duties Order 2012, which is governed by the Customs Act 1967. The government’s indirect taxation policies will affect the price of the products and services and subsequently will also affect consumers purchasing decision (Hussain and Naheed, 2005). However, the free trade agreement, trade liberalization and globalization had caused the government to abolish, reduce or exempt the tariff rates for many goods and products (Gunasegaram, 2012). This is in line with the requirement of the agreement and understanding to eliminate the tariff and no-tariff barrier in international trade.

2.2. Excise duties
دریافت فوری
متن کامل مقاله
امکان دانلود نسخه تمام متن مقالات انگلیسی
امکان دانلود نسخه ترجمه شده مقالات
پذیرش سفارش ترجمه تخصصی
امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
امکان دانلود رایگان ۲ صفحه اول هر مقاله
امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
دانلود فوری مقاله پس از پرداخت آنلاین
پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات